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Report Highlights:

- MEXICAN ECONOMY GROWS 4.9% IN FOURTH QUARTER
- CHINA COMPETITION
- PORT OF HOUSTON SIGNS BUSINESS DEVELOPMENT AGREEMENT WITH MEXICAN STRATEGIC FREE TRADE ZONE
- AGRICULTURAL GDP INCREASES
- POSSIBLE TRADE AGREEMENT BETWEEN SOUTH KOREA AND MEXICO
- ALSEA EXPANDING ITS FAST FOOD EMPIRE

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Mexico [MX1]
[MX]

Welcome to Hot Bites from Mexico, a weekly review of issues of interest to the U.S. agricultural community. The topics covered in this report reflect developments in Mexico that have been garnered during travel around the country, reported in the media, or offered by host country officials and agricultural analysts. Readers should understand that press articles are included in this report to provide insights into the Mexican "mood" facing U.S. agricultural exporters. Significant issues will be expanded upon in subsequent reports from this office.

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MEXICAN ECONOMY GROWS 4.9% IN FOURTH QUARTER

The Mexican economy expanded in the fourth quarter at its fastest pace in more than four years, buoyed by a surge in consumer spending. Latin America's largest economy grew at an annual rate of 4.9 percent during the fourth quarter of 2004 after expanding 4.4 percent in the third quarter, the Finance Secretariat said in a report. In a Bloomberg survey, the median of 15 economists' estimates forecast growth of 4.6 percent. The economy expanded 4.4 percent in 2004. (Source: *El Universal*, 02/17/2004)

CHINA COMPETITION

China's exports to the United States rose 29 percent last year to US\$ 197 billion, more than double Mexico's 13 percent increase (to US\$ 156 billion). China's share of the U.S. import market jumped 1.2 percentage points to 13.3 percent during 2004, while the Mexico's share fell 0.40 percentage points to 10.6 percent, said Merrill Lynch in a Feb. 11 report. The report further stated Mexico lost market share in nine of its top 10 export industries. With exporters losing out to China, Mexico did not benefit as much from a 4.1 percent increase in U.S. industrial production last year. In 2000, the nation's economy rose 6.6 percent when the United States posted a 4.3 percent gain in production. (Source: *El Universal*, 02/17/2004)

PORT OF HOUSTON SIGNS BUSINESS DEVELOPMENT AGREEMENT WITH MEXICAN STRATEGIC FREE TRADE ZONE

On February 15, the Port of Houston Authority International Corporation (POHAIC) signed a business agreement with Grupo Empresarial Logistik (GEL), a Monterrey-based corporation that operates the first strategic free trade zone in Mexico located in the northern city of San Luis Potosi. Under terms of the agreement, POHAIC will consult GEL in the development of the first inter-modal terminal and strategic foreign trade zone in Mexico – ultimately creating a major logistical corridor between Houston and central Mexico for global manufacturers and retailers and serving as a satellite hub for the Port of Houston. Under the terms of the agreement, POHAIC will help GEL develop a business plan and identify sources of capital. According to Tom Kornegay, president of POHAIC, this agreement will "enable GEL to heighten central Mexico's appeal to global import and export shippers." U.S. agricultural trade stands to benefit from improved border crossing efficiency, lower costs from more

efficient regulatory controls, and establishment opportunities for foreign companies, among others. (POHAIC Press Release, February 16, 2005 and ATO Monterrey)

AGRICULTURAL GDP INCREASES

GDP for Mexico's agricultural sector increased 4 percent during the fourth quarter of 2004 as compared to the same period in 2003. According to the National Agricultural Council, the increase can be attributed to favorable weather conditions from the past year. Statistics from the Secretariat of Treasury reveal national GDP growth at 4.9 percent in 2004, as compared to the 4 percent registered for the agricultural sector, the largest in a six-year period. Total growth in agricultural GDP in the last four years has been 11.4 percent, with an average annual increase of 2.7 percent. (Source: *Reforma*, 2/18/05)

POSSIBLE TRADE AGREEMENT BETWEEN SOUTH KOREA AND MEXICO

Despite opposition from Mexican industrialists, the possibility of a free trade agreement between South Korea and Mexico is as likely as ever. Pressure from the Asian country forced the formation of a working group that has been analyzing mechanisms that could deepen economic trade relations and their results will be released in a study later this year. Evaluations of individual products and sectors will be conducted to determine beneficial trade possibilities. Eventually, preferential trade agreements for certain products may be negotiated, with the possibility of future agreements relating to promotion and reciprocal protection of investments and economic cooperation. (Source: *El Financiero*, 2/17/05)

ALSEA EXPANDING ITS FAST FOOD EMPIRE

The Spanish fastfood firm, Telepizza, is departing the Mexican market, selling its three stores to Alsea, which operates the Domino's Pizza franchise in Mexico and Brazil. Alsea, which opened its 500th Domino's in Mexico at the end of 2004, is a dominant player in fastfood franchising in Mexico. In addition to Domino's, it operates 43 Starbucks, 50 Burger Kings and 5 Popeyes. The most recent opening was a Popeyes at the Mexico City International airport on February 1, 2005. (Source: *El Financiero* 2/22/05 and Alsea press releases 12/30/04 and 2/1/05)

REPORTS RECENTLY SUBMITTED BY FAS/MEXICO CITY

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MX5018	Status on Avian Influenza – Update #7	02/22/05

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